

SECURITIES AND EXCHANGE COMMISSION

FORM SC 13D

Schedule filed to report acquisition of beneficial ownership of 5% or more of a class of equity securities

Filing Date: **1999-09-10**
SEC Accession No. **0000950134-99-008193**

([HTML Version](#) on [secdatabase.com](#))

SUBJECT COMPANY

MIDDLE BAY OIL CO INC

CIK: **903267** | IRS No.: **631081013** | State of Incorpor.: **AL** | Fiscal Year End: **1231**
Type: **SC 13D** | Act: **34** | File No.: **005-48873** | Film No.: **99709881**
SIC: **1382** Oil & gas field exploration services

Mailing Address
*PO BOX 390
MOBILE AL 36602*

Business Address
*1221 LAMAR ST
SUITE 1020
HOUSTON TX 77010
7137596808*

FILED BY

ENCAP INVESTMENTS LLC

CIK: **1083297**
Type: **SC 13D**

Mailing Address
*1001 LOUINIANA ST
PO BOX 2511
HOUSTON TX 77252*

Business Address
*1001 LOUISIANA AVENUE
PO BOX 2511
HOUSTON TX 77252
7136596100*

SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D.C. 20549

SCHEDULE 13D

UNDER THE SECURITIES EXCHANGE ACT OF 1934*

MIDDLE BAY OIL COMPANY, INC.
 (NAME OF ISSUER)

COMMON STOCK, PAR VALUE \$.02 PER SHARE
 (TITLE OF CLASS OF SECURITIES)

595673203
 (CUSIP NUMBER)

D. MARTIN PHILLIPS
 ENCAP INVESTMENTS L.L.C.
 1100 LOUISIANA, SUITE 3150
 HOUSTON, TEXAS 77002
 (713) 659-6100
 (NAME, ADDRESS AND TELEPHONE NUMBER OF PERSON
 AUTHORIZED TO RECEIVE NOTICES AND COMMUNICATIONS)

AUGUST 27, 1999
 (DATE OF EVENT WHICH REQUIRES FILING
 OF THIS STATEMENT)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition which is the subject of this Schedule 13D, and is filing this schedule because of Sections 240.13d-1(e), 240.13d-1(f) or 204.13d-1(g), check the following box. []

NOTE: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See Section 240.13d-7(b) for other parties to whom copies are to be sent.

*The remainder of the cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP NO. 595673203

SCHEDULE 13D

(1) Names of Reporting Persons I.R.S. Identification Nos. of Above Persons
 (entities only)

 3TEC ENERGY COMPANY L.L.C.

(2) Check the Appropriate Box if a Member of a Group
 (See Instructions)

(a) []
 (b) []

(3) SEC Use Only

(4) Source of Funds (See Instructions) OO (SEE ITEM 3)

(5) Check if Disclosure of Legal Proceedings is Required Pursuant to Items
2(d) or 2(e) []

(6) Citizenship or Place of Organization 3TEC ENERGY COMPANY L.L.C.
("3TEC") IS A LIMITED LIABILITY
COMPANY ORGANIZED UNDER THE LAWS
OF THE STATE OF DELAWARE

| | | | |
|--------------|------|--------------------------|------------|
| Number of | (7) | Sole Voting Power | 10,482,222 |
| Number of | | | ----- |
| Shares Bene- | | | |
| ficially | (8) | Shared Voting Power | 0 |
| Owned by | | | ----- |
| Each | | | |
| Reporting | (9) | Sole Dispositive Power | 10,482,222 |
| Person With | | | ----- |
| | (10) | Shared Dispositive Power | 0 |

(11) Aggregate Amount Beneficially Owned by Each Reporting Person
10,482,222

(12) Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See
Instructions) []

(13) Percent of Class Represented by Amount in Row (11) 54.86%(1)

(14) Type of Reporting Person (See Instructions) OO

(1) Based on 13,379,153 shares of Common Stock issued and outstanding on
August 27, 1999.

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CUSIP NO. 595673203

SCHEDULE 13D

(1) Names of Reporting Persons I.R.S. Identification Nos. of Above Persons
(entities only)

ENCAP INVESTMENTS L.L.C.

(2) Check the Appropriate Box if a Member of a Group
(See Instructions) (a) []

(3) SEC Use Only

(4) Source of Funds (See Instructions) OO (SEE ITEM 3)

(5) Check if Disclosure of Legal Proceedings is Required Pursuant to Items 2(d) or 2(e) []

(6) Citizenship or Place of Organization ENCAP INVESTMENTS L.L.C. ("ENCAP INVESTMENTS") IS A LIMITED LIABILITY COMPANY ORGANIZED UNDER THE LAWS OF THE STATE OF DELAWARE

| | | | |
|---|------|--------------------------|---------------|
| Number of Shares Beneficially Owned by Each Reporting Person With | (7) | Sole Voting Power | 0 |
| | (8) | Shared Voting Power | 10,482,222(1) |
| | (9) | Sole Dispositive Power | 0 |
| | (10) | Shared Dispositive Power | 10,482,222(1) |

(11) Aggregate Amount Beneficially Owned by Each Reporting Person 10,482,222(2)

(12) Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) []

(13) Percent of Class Represented by Amount in Row (11) 54.86%(3)

(14) Type of Reporting Person (See Instructions) OO

(1) EnCap Investments may be deemed to have voting and dispositive power with respect to the shares of Common Stock owned by 3TEC. See Item 5.

(2) EnCap Investments disclaims any beneficial ownership of the shares owned by 3TEC.

(3) Based on 13,379,153 shares of Common Stock issued and outstanding on August 27, 1999.

ITEM 1. SECURITY AND ISSUER.

The class of equity securities to which this statement relates is common stock, par value \$.02 per share (the "Common Stock"), of Middle Bay Oil Company, Inc., an Alabama corporation (the "Issuer"). The address of the

principal executive offices of the Issuer is 1221 Lamar Street, Suite 1020, Houston, Texas 77010.

ITEM 2. IDENTITY AND BACKGROUND.

(a) - (c), (f)

3TEC is a Delaware limited liability company with its principal executive offices located at 5910 North Central Expressway, Suite 1150, Dallas, Texas 75206. The principal business of 3TEC is engaging in oil and gas investments. Current information concerning the controlling person and the officers and managers of 3TEC is set forth on Schedule I hereto. The controlling person of 3TEC is EnCap Investments L.L.C., a Delaware limited liability company ("EnCap Investments").

EnCap Investments is a Delaware limited liability company with its principal executive offices at 1100 Louisiana Street, Suite 3150, Houston, Texas 77002. The principal business of EnCap Investments is engaging in oil and gas investments. Current information concerning the sole member and managing directors of EnCap Investments is set forth on Schedule I hereto. The sole member of EnCap Investments is El Paso Field Services Company, a Delaware corporation ("El Paso Field Services").

El Paso Field Services Company is a Delaware corporation with its principal executive offices at 1001 Louisiana Street, Houston, Texas 77002. The principal business of El Paso Field Services is natural gas gathering and processing and intrastate gas transmission. Current information concerning the controlling person and executive officers and directors of El Paso Field Services is set forth on Schedule I hereto. The controlling person of El Paso Field Services is El Paso Energy Corporation, a Delaware corporation ("El Paso Energy").

El Paso Energy is a Delaware corporation with its principal executive offices located at the El Paso Energy Building, 1001 Louisiana Street, Houston, Texas 77002. The principal business of El Paso Energy is serving as a holding company for its various subsidiaries, which are engaged in energy and related businesses. Current information concerning the executive officers and directors of El Paso Energy is set forth on Schedule I hereto.

(d) During the last five years, neither the parties listed in this Item 2 nor, to the best knowledge of the reporting persons, any of the persons listed in Schedule I, has been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors).

(e) During the last five years, neither the parties listed in this Item 2 nor, to the best knowledge of the reporting persons, any of the persons listed in Schedule I was a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting activities subject to, federal or state securities laws or finding any violation of such laws.

ITEM 3. SOURCE AND AMOUNT OF FUNDS OR OTHER CONSIDERATION.

SECURITIES PURCHASE AGREEMENT

On August 27, 1999, the Issuer closed the transactions contemplated by a Securities Purchase Agreement (the "Securities Purchase Agreement") with 3TEC Energy Corporation ("Old 3TEC"), a privately-held Delaware corporation based in Dallas, Texas. Contemporaneously with the closing of the

transactions contemplated by the Securities Purchase Agreement, Old 3TEC was merged with and into 3TEC with 3TEC as the surviving entity. As a result of the merger, all the properties, rights, privileges, powers, and franchises of Old

3TEC, including without limitation, the rights, obligations and duties of Old 3TEC under the Securities Purchase Agreement, became vested in 3TEC as the surviving entity.

Pursuant to the Securities Purchase Agreement, 3TEC purchased 4,755,556 shares (the "Shares") of Common Stock, plus five-year warrants to purchase 3,600,000 shares of Common Stock at an exercise price of \$1.00 per share (the "Warrants"), for a total purchase price of \$10,700,000. Additionally, Middle Bay issued to 3TEC a five-year senior subordinated convertible promissory note in the principal amount of \$10,700,000 (the "Note"). 3TEC paid the aggregate purchase price for the Shares, Warrants and Note \$20,525,000 in cash and \$875,000 in agreed value of certain oil and gas properties to be assigned to Middle Bay.

The Note is convertible at any time into Middle Bay common stock at \$3.00 per share (a total of 3,566,666 common shares). Interest at 9% per annum is payable quarterly. Middle Bay may defer 50% of the first eight interest payments and add them to the principal due at maturity. The Note is subordinate to Middle Bay's bank credit facility, but senior to other debt. 3TEC (as noteholder) must approve any change in the credit facility, corporate structure and major transactions of Middle Bay until the Note is paid.

Sixty percent (60%) of the Warrants may be exercised by 3TEC at any time. The remaining 40% may be exercised incrementally over the five-year term of the Warrants. The Warrants may be exercised for cash or reduction of the Note principal.

SHAREHOLDERS' AGREEMENT

In connection with the transaction, Kaiser-Francis Oil Company, C.J. Lett, III, Weskids, L.P., Alvin V. Shoemaker (collectively referred to as the "Major Shareholders"), 3TEC and the Issuer entered into a Shareholders' Agreement dated as of August 27, 1999 (the "Shareholders' Agreement"). Under the terms of the Shareholders' Agreement, the number of directors serving as members of the Board of Directors of Middle Bay (the "Board") was reduced from seven (7) to five (5). 3TEC has the right to designate three members of the Board; provided that if 3TEC owns less than 15% of the issued and outstanding shares of Common Stock it shall be entitled to designate only two (2) members to the Board; provided, further, that if 3TEC owns less than 7 1/2% of the issued and outstanding shares of Common Stock it shall be entitled to designate only one (1) member to the Board. The Major Shareholders have the right to designate two members of the Board; provided that if the Major Shareholders own less than 7 1/2% of the issued and outstanding shares of Common Stock they shall be entitled to designate only one (1) member to the Board. All parties to the Shareholders' Agreement agree to vote all shares held by them in favor of the election or removal of the directors designated by 3TEC and the Major Shareholders. If either 3TEC or the Major Shareholders are no longer eligible to designate a director or directors to the Board, the then existing Board shall either (1) decrease the size of the Board, (2) leave the vacated seat empty, or (3) appoint a replacement to serve until the next election of directors by the shareholders of Middle Bay, and select a nominee to fill the open seat for election by shareholders at the next annual meeting. The Major Shareholders may request that a non-voting advisory board member that is subject to 3TEC's approval be appointed to the Board. All parties to the Shareholders' Agreement agree to vote all shares held by them in favor of changing the state of incorporation of the Company from Alabama to another jurisdiction recommended by the Board. The Shareholders' Agreement will terminate if each of 3TEC and the Major Shareholders own less than five percent of the issued and outstanding shares of Common Stock.

REGISTRATION RIGHTS AGREEMENT

Pursuant to a Registration Rights Agreement by and among the Issuer, 3TEC and certain other shareholders of the Issuer dated as of August 27, 1999, 3TEC, Shoemaker Family Partners, L.P. and Shoeinvest II, L.P. have a three-time demand right to have their Common Stock registered with the Securities

and Exchange Commission (at Middle Bay's expense) and have "piggyback rights" (with certain other principal shareholders of Middle Bay having subordinate piggyback rights) to have their Common Stock registered and publicly sold along with any public offering of securities by Middle Bay.

ITEM 4. PURPOSE OF TRANSACTION.

3TEC holds a substantial ownership position in the Issuer in order to be able to influence the business and management of the Issuer. 3TEC, through its nominees on the Board, intends to actively participate in the business and management of the Issuer. Under the Shareholders' Agreement, the number of directors was reduced from seven (7) to five (5) and three (3) 3TEC designees were elected to the Issuer's Board of Directors. In addition, 3TEC, through its nominees on the Board, intends to propose that the shareholders of Middle Bay vote in favor of changing the state of incorporation from Alabama to another jurisdiction recommended by the Board of Directors.

The reporting persons intend to monitor and evaluate their investment in the Issuer in light of pertinent factors, including oil and gas prices, market conditions, the Issuer's performance and prospects, the trading prices of the Common Stock, conditions in the oil and gas industry and general economic conditions. 3TEC may make additional purchases of Common Stock in the future through market transactions or otherwise, maintain its current investment or dispose of some or all of the Common Stock.

Except as set forth above, the reporting persons have no present plans or proposals that relate to or that would result in any of the actions specified in clauses (a) through (j) of Item 4 of Schedule 13D.

ITEM 5. INTEREST IN SECURITIES OF THE ISSUER.

(a) The following table describes the number of shares of Common Stock, including shares of Common Stock issuable upon exercise or conversion of derivative securities and the percent of outstanding Common Stock owned by the reporting persons and the other parties to the Shareholders' Agreement. All percentages are based on 13,379,153 shares of Common Stock issued and outstanding on August 27, 1999.

<TABLE>
<CAPTION>

| NAME | SHARES OUTSTANDING | | DERIVATIVE SECURITIES | | TOTAL | |
|----------------------------|--------------------|------------|-----------------------|---------------|------------|--------|
| | SOLE | SHARED | SOLE | SHARED | NUMBER | % (1) |
| 3TEC Energy Company L.L.C. | 4,755,556 | -- | 5,726,666 (2) | -- | 10,482,222 | 54.86% |
| EnCap Investments L.L.C. | -- | 4,755,556 | -- | 5,726,666 (2) | 10,482,222 | 54.86% |
| Kaiser-Francis Oil Company | 3,333,334 | -- | -- | -- | 3,333,334 | 24.91% |
| C.J. Lett, III | 1,187,556 | -- | -- | -- | 1,187,556 | 8.88% |
| Weskids, L.P. | 843,687 | -- | 117,467 (3) | -- | 961,154 | 7.12% |
| Alvin V. Shoemaker | 684,222 | 50,466 (4) | 117,466 (3) | 30,280 (4) | 882,434 | 6.52% |

(1) In accordance with SEC regulations under Section 13(d) of the Act, the percent shown in this column for each stockholder represents the number of shares of Common Stock owned by the stockholder plus the derivative securities (on an as converted basis) owned by such stockholder divided by the number of shares outstanding plus the number of derivative securities (on an as converted basis) owned by such stockholder.

(2) Represents warrants to purchase Common Stock which are exercisable within 60 days of this filing and notes convertible into common stock.

(3) Represents shares of Common Stock issuable upon conversion of the Issuer's Series B Convertible Preferred Stock.

(4) Mr. Shoemaker may be deemed to share the power to vote or direct the vote and to dispose or direct the disposition of 80,746 shares of Common Stock with

If the parties to the Shareholders' Agreement constitute a group for purposes of Rule 13d-5 of the Act, then the group may collectively own an aggregate of 16,846,700 shares of Common Stock of the Issuer

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(which is approximately 87% of the outstanding shares of Common Stock of the Issuer as of August 27, 1999). 3TEC and EnCap Investments disclaim any beneficial ownership of the other parties to the Shareholder's Agreement and only claim beneficial ownership of 10,482,222 shares of Common Stock of the Issuer.

(b) 3TEC. 3TEC has the sole power to vote and to dispose or direct the disposition of 10,482,222 shares of Common Stock.

EnCap Investments. EnCap Investments may be deemed to have the power to vote and direct the vote or to dispose or direct the disposition of 10,482,222 shares of Common Stock owned by 3TEC (by virtue of being the controlling person of 3TEC). EnCap Investments disclaims beneficial ownership of the shares of Common Stock owned by 3TEC.

El Paso Field Services and El Paso Energy. Each of El Paso Field Services and El Paso Energy may be deemed to have the power to vote and direct the vote or to dispose or direct the disposition of the shares of Common Stock owned or deemed to be owned by EnCap Investments (by virtue of being controlling persons of EnCap Investments). El Paso Field Services and El Paso Energy disclaim beneficial ownership of the shares of Common Stock owned by 3TEC.

Executive Officers and Directors. Except as otherwise described herein, to the knowledge of the reporting persons, no executive officer or director of the reporting persons or managing director of EnCap Investments or other person listed in Schedule I has the power to vote or direct the vote or dispose or direct the disposition of any shares of Common Stock.

(c) Except as otherwise described herein or in any Exhibit filed herewith, to the knowledge of the reporting persons, none of the persons named in response to paragraph (a) above has effected any transaction in shares of the Common Stock during the past 60 days.

(d) Except as otherwise described herein, no person has the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, the shares of Common Stock deemed to be beneficially owned by them.

(e) It is inapplicable for the purposes herein to state the date on which a party ceased to be the owner of more than five percent (5%) of the shares of Common Stock.

ITEM 6. CONTRACTS, ARRANGEMENTS, UNDERSTANDINGS OR RELATIONSHIPS WITH RESPECT TO THE SECURITIES OF THE ISSUER.

Except as described in this Schedule 13D, there are no contracts, arrangements, understandings or relationships (legal or otherwise) between any of the individuals or entities described in Item 2 or between such persons and any other person with respect to the shares of Common Stock deemed to be beneficially owned by the reporting persons.

ITEM 7. MATERIAL TO BE FILED AS EXHIBITS.

| | | |
|--------------|---|--|
| Exhibit 10.1 | - | Securities Purchase Agreement dated July 1, 1999 by and among the Issuer and 3TEC.** |
| Exhibit 10.2 | - | Shareholders' Agreement dated August 27, 1999 by and among the Issuer, 3TEC and each of the Major Shareholders.* |

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- Exhibit 10.3 - Registration Rights Agreement dated August 27, 1999 by and among Issuer, 3TEC, Shoemaker Family Partnership, L.P., Shoeinvest II, L.P. and the Major Shareholders.*
- Exhibit 99.1 - Joint Filing Agreement dated September 7, 1999 by and between 3TEC and EnCap Investments*

* Filed herewith.

** Filed as Exhibit C to the Proxy Statement filed by Issuer on July 19, 1999.

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SIGNATURES

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: September 7, 1999

3TEC ENERGY CORPORATION

By: /s/ Floyd Wilson

 Floyd Wilson
 Managing Director

Date: September 7, 1999

ENCAP INVESTMENTS L.L.C.

By: /s/ D. Martin Phillips

 D. Martin Phillips
 Managing Director

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SCHEDULE I

DIRECTORS, MANAGERS, EXECUTIVE OFFICERS OR CONTROLLING PERSONS

1. 3TEC. Set forth below are the name, business address and present principal occupation of each of the managers and officers of 3TEC. Each manager

and officer of 3TEC is a United States citizen. To the knowledge of the reporting persons, none of such individuals directly owns any Common Stock.

<TABLE>
<CAPTION>

| Name and Citizenship ----- | Business Address ----- | Position/Principal Occupation ----- |
|-------------------------------|---|--|
| <S> | <C> | <C> |
| David B. Miller | 3811 Turtle Creek Blvd. Dallas, Texas 75219 | David B. Miller is Managing Director of EnCap Investments |
| D. Martin Phillips | 1100 Louisiana Street, Suite 3150 Houston, Texas 77002 | D. Martin Phillips is Managing Director of EnCap Investments |
| Floyd C. Wilson | 5910 N. Central Expressway Suite 1150 Dallas, Texas 75206 | Floyd C. Wilson is Chairman Of the Board, President and Chief Executive Officer of Middle Bay Oil Company, Inc. |

</TABLE>

2. EnCap Investments. Set forth below are the name and present, principal occupation or employment of each managing director of EnCap Investments. The business address of each managing director, unless otherwise indicated below, is 1100 Louisiana Street, Suite 3150, Houston, Texas 77002. Each managing director of EnCap is a United States citizen. To the knowledge of the reporting persons, none of such individuals directly owns any Common Stock.

<TABLE>
<CAPTION>

| Name ----- | Present Principal Occupation or Employment ----- |
|--------------------|---|
| <S> | <C> |
| Gary R. Peterson | Gary R. Petersen is a Managing Director of EnCap Investments. |
| D. Martin Phillips | D. Martin Phillips is a Managing Director of EnCap Investments. |
| David B. Miller | David B. Miller is a Managing Director of EnCap Investments. |
| Robert L. Zorich | Robert L. Zorich is a Managing Director of EnCap Investments. |
| D. Mark Leland | D. Mark Leland is a Managing Director of EnCap Investments. |

</TABLE>

3. El Paso Field Services. The name and citizenship, business address and present principal occupation or employment, and the name of any corporation or other organization in which

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such employment is conducted, of each of the directors and executive officers of El Paso Field Services is set forth below.

<TABLE>
<CAPTION>

| Name and Citizenship ----- | Business Address ----- | Position/Principal Occupation ----- |
|--|---|--|
| <S> | <C> | <C> |
| Executive Officers & Directors: | | |
| William A. Wise (United States Citizen) | El Paso Energy Corporation 1001 Louisiana Street Houston, Texas 77002 | Director and Chairman of the Board |

| | | |
|---|---|--|
| Robert G. Phillips (United States Citizen) | El Paso Energy Corporation 1001 Louisiana Street Houston, Texas 77002 | Director and President |
| H. Brent Austin (United States Citizen) | El Paso Energy Corporation 1001 Louisiana Street Houston, Texas 77002 | Director, Executive Vice President and Chief Financial Officer |
| Jeffrey I. Beason (United States Citizen) | El Paso Energy Corporation 1001 Louisiana Street Houston, Texas 77002 | Vice President and Controller |
| C. Dana Rice (United States Citizen) | El Paso Energy Corporation 1001 Louisiana Street Houston, Texas 77002 | Vice President and Treasurer |
| Robert L. Cavnar (United States Citizen) | El Paso Energy Corporation 1001 Louisiana Street Houston, Texas 77002 | Senior Vice President and Chief Operating Officer |
| D. Mark Leland (United States Citizen) | El Paso Energy Corporation 1001 Louisiana Street Houston, Texas 77002 | Vice President |
| Gary R. Peterson | See Part 1 above. | Senior Vice President |
| D. Martin Phillips | See Part 1 above. | Senior Vice President |
| David B. Miller | See Part 1 above. | Senior Vice President |
| Robert L. Zorich </TABLE> | See Part 1 above. | Senior Vice President |

4. El Paso Energy. The name and citizenship, business address and present principal occupation or employment, and the name of any corporation or other organization in which such employment is conducted, of each of the directors and executive officers of El Paso Energy is set forth below.

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| <TABLE> <CAPTION> Name and Citizenship ----- <S> | Business Address ----- <C> | Position/Principal Occupation ----- <C> |
|--|---|---|
| Executive Officers & Directors: | | |
| William A. Wise (United States Citizen) | El Paso Energy Corporation 1001 Louisiana Street Houston, Texas 77002 | Director and Chairman of the Board, President and Chief Executive Officer |
| H. Brent Austin (United States Citizen) | El Paso Energy Corporation 1001 Louisiana Street Houston, Texas 77002 | Executive Vice President and Chief Financial Officer |
| Joel Richards III (United States Citizen) | El Paso Energy Corporation 1001 Louisiana Street Houston, Texas 77002 | Executive Vice President |
| Ralph Eads (United States Citizen) | El Paso Energy Corporation 1001 Louisiana Street Houston, Texas 77002 | Executive Vice President |
| Jeffrey I. Beason (United States Citizen) | El Paso Energy Corporation 1001 Louisiana Street Houston, Texas 77002 | Vice President and Controller |
| C. Dana Rice | El Paso Energy Corporation | Vice President and Treasurer |

| | | |
|---|---|--|
| (United States Citizen) | 1001 Louisiana Street Houston, Texas 77002 | |
| Britton White Jr. (United States Citizen) | El Paso Energy Corporation 1001 Louisiana Street Houston, Texas 77002 | Executive Vice President and General Counsel |
| Richard Owen Baish (United States Citizen) | El Paso Energy Corporation 1001 Louisiana Street Houston, Texas 77002 | President of El Paso Natural Gas Company |
| John D. Hushon (United States Citizen) | El Paso Energy Corporation 1001 Louisiana Street Houston, Texas 77002 | President of El Paso Energy International Company |
| Greg G. Jenkins (United States Citizen) | El Paso Energy Corporation 1001 Louisiana Street Houston, Texas 77002 | President of El Paso Services Holding Company |
| Robert G. Phillips (United States Citizen) | El Paso Energy Corporation 1001 Louisiana Street Houston, Texas 77002 | President of El Paso Field Services Company |
| John W. Somerhalder II (United States Citizen) | El Paso Energy Corporation 1001 Louisiana Street Houston, Texas 77002 | President of Tennessee Gas Pipeline Company |

</TABLE>

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| <TABLE> <CAPTION> Name and Citizenship ----- <S> | Business Address ----- <C> | Position/Principal Occupation ----- <C> |
|--|---|--|
| Byron Allumbaugh (United States Citizen) | Ralphs Grocery Company 610 Newport Center Drive, Suite 210 Newport Beach, CA 92660 | Director of El Paso/Retired Chairman, Ralphs Grocery Company |
| Juan Carlos Braniff (Mexican Citizen) | Presidente Masaryk No. 8 6th Floor Col. Bosques de Chapultepec Mexico, D.F. 11588 | Director of El Paso/Deputy CEO Insurance & Pensions Sector Grupo Financiero Bancomer |
| Peter T. Flawn (United States Citizen) | University of Texas 23rd and San Jacinto Room GEO526 Austin, Texas 78705 | Director of El Paso President Emeritus, University of Texas at Austin |
| James F. Gibbons (United States Citizen) | Stanford University Paul G. Allen Center for Integrated Systems Room 201, Mail Stop 4075 Stanford, CA 94305 | Director of El Paso/Former Dean of Engineering, Stanford University |
| Ben F. Love (United States Citizen) | Chase Bank of Texas 600 Travis, 18th Floor Houston, Texas 77002 | Director of El Paso/Investor Former Chairman and CEO, Texas Commerce Bancshares |
| Kenneth L. Smalley (United States Citizen) | 5 Queensview Court Dallas, Texas 75225 | Director of El Paso/Retired President of Phillips 66 Natural Gas Company |
| Malcolm Wallop (United States Citizen) | Frontiers of Freedom Western Strategy Group 1100 Wilson Boulevard, Suite 1400 | Director of El Paso/ Chairman, Western Strategy Group and Frontiers of Freedom |

</TABLE>

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INDEX TO EXHIBITS

| <TABLE> <CAPTION> Exhibit Number ----- | | | Description ----- |
|--|-----|-----|---|
| <S> | <C> | <C> | Securities Purchase Agreement dated July 1, 1999 by and among the Issuer and 3TEC.** |
| 10.1 | - | | |
| 10.2 | - | | Shareholders' Agreement dated August 27, 1999 by and among the Issuer, 3TEC and each of the Major Shareholders.* |
| 10.3 | - | | Registration Rights Agreement dated August 27, 1999 by and among Issuer, 3TEC, Shoemaker Family Partnership, L.P., Shoeinvest II, L.P. and the Major Shareholders.* |
| 99.1 | - | | Joint Filing Agreement dated September 7, 1999 by and between 3TEC and EnCap Investments* |

</TABLE>

* Filed herewith.

** Filed as Exhibit C to the Proxy Statement filed by Issuer on July 19, 1999.

SHAREHOLDERS' AGREEMENT

This Shareholders' Agreement (the "Agreement") is made and entered into this 27th day of August, 1999, by and among MIDDLE BAY OIL COMPANY, INC., an Alabama corporation (the "Company") and the undersigned shareholders of the Company (the "Shareholders")

RECITALS

WHEREAS, as of the date hereof, there are 13,379,153 issued and outstanding shares of the Company's common stock, \$.02 par value (the "Common Stock");

WHEREAS, as of the date hereof, the Shareholders collectively own 10,804,355 shares or 80.76% of the issued and outstanding shares of Common Stock, as follows:

<TABLE>

<CAPTION>

| SHAREHOLDER | SHARES | PERCENTAGE |
|----------------------------|-----------|------------|
| <S> | <C> | <C> |
| 3TEC Energy Corporation | 4,755,556 | 35.55% |
| Kaiser-Francis Oil Company | 3,333,334 | 24.91% |
| C.J. Lett, III | 1,187,556 | 8.88% |
| Weskids, L.P. | 843,687 | 6.31% |
| Alvin V. Shoemaker | 684,222 | 5.11% |

</TABLE>

WHEREAS, Kaiser-Francis Oil Company, C.J. Lett, III, Weskids, L.P. and Alvin V. Shoemaker are referred to herein collectively as the "Major Shareholders";

WHEREAS, the Shareholders desire to promote their mutual interests and interests of the Company by imposing certain restrictions and obligations upon themselves, the Company and the shares of Common Stock; and

WHEREAS, the execution and delivery of this Shareholders' Agreement is a condition to the closing of that certain Securities Purchase Agreement between the Company and 3TEC Energy Corporation dated July 1, 1999 (the "Purchase Agreement").

NOW, THEREFORE, in consideration of the mutual promises contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Nomination and Election of Directors. Each of the Shareholders agrees, so long as it owns such shares, to vote (including the taking of any action by written consent, as necessary or appropriate) and cause its Affiliates to vote all shares of Common Stock (and any and all shares of any other voting class of capital stock of the Company presently or at any future time owned by the Shareholders) which it is entitled to vote (or control the voting directly or indirectly) to ensure

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that the following shall occur:

- (a) The Company shall at all times be managed by or under the direction of the Board of Directors of the Company (the "Board"), which shall consist of five (5) members.
- (b) The Shareholders shall use their best efforts (including voting the shares owned by them and their affiliates, in calling special meetings of the Shareholders and executing and delivering written consents), to elect five (5) members of the Board, consisting of the following:
 - (i) Three (3) members designated by 3TEC Energy Corporation ("3TEC"); and
 - (ii) Two (2) members designated by the Major Shareholders.

The party designating a director may remove such director, with or without cause, and designate his or her successor. If the director designated by a party resigns, dies, becomes incapacitated or is otherwise unable to serve, the party designating such director may designate his or her successor. All Shareholders shall vote all shares held by them in favor of the election or removal of such persons so designated. Action taken by either 3TEC or the Major Shareholders in designating or removing directors shall be in writing executed by either 3TEC or the Major Shareholders, as the case may be, and promptly delivered to the other Shareholders and the Company.

2. Advisory Member. As long as the Board of Directors of the Company shall consist of five (5) members, the Major Shareholders may request that a non-voting advisory board member be appointed. Upon such request, the Major Shareholders shall, subject to 3TEC's approval, select the person whom it

desires to have serve as such non-voting advisory board member. Such non-voting advisory board member shall be permitted but not required to attend meetings of the Board of Directors.

3. Vote in Favor of Change of State of Incorporation. Each of the Shareholders agrees, so long as it owns such shares, to vote (including the taking of any action by written consent, as necessary or appropriate) and cause its Affiliates to vote all shares of Common Stock (and any and all shares of any other voting class of capital stock of the Company presently or at any future time owned by the Shareholders) which it is entitled to vote (or control the voting directly or indirectly) to ensure that, at the request of 3TEC, to vote their shares of Common Stock in favor of changing the state of incorporation of the Company from Alabama to another jurisdiction recommended by the Board of Directors.

4. Termination of 3TEC's Right to Elect Directors. 3TEC's right to designate the directors as provided in paragraph 1(b)(i) above shall terminate as follows:

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- (a) if 3TEC's ownership of Common Stock is below 15% of the Adjusted Outstanding Common Stock, 3TEC shall be entitled to designate only two (2) members to the Board;
- (b) if 3TEC's ownership of Common Stock is below 7 1/2% of the Adjusted Outstanding Common Stock, 3TEC shall be entitled to designate only one (1) member to the Board; and
- (c) if 3TEC's ownership of Common Stock is below 5% of the Adjusted Outstanding Common Stock, 3TEC's right to designate a member to the Board shall terminate.

For purposes hereof, "Adjusted Outstanding Common Stock" shall mean the number of shares of Common Stock outstanding less any shares of Common Stock purchased by Kaiser-Francis Oil Company pursuant to its respective Purchase Agreement.

5. Termination of Major Shareholders' Right to Elect Directors. The Major Shareholders' right to designate the directors as provided in paragraph 1(b)(ii) above shall terminate as follows:

- (a) if the Major Shareholders' ownership of Common Stock is below 7 1/2% of the outstanding Common Stock, the Major Shareholders shall be entitled to designate only one (1) member to the Board;
- (b) if the Major Shareholders' ownership of Common Stock is below

5% of the outstanding Common Stock, the Major Shareholders' right to designate a member to the Board shall terminate.

6. Replacement Director. If either 3TEC or the Major Shareholders is no longer eligible to designate a director or directors to the Board, the Board shall (i) decrease the size of the Board, (ii) leave the vacated seat empty, or (iii) appoint a replacement to serve until the next election of directors by the shareholders of the Company through its normal nominating procedure, and select a nominee to fill the open seat for election by shareholders at the next annual meeting.

7. Restrictive Legend. Each certificate evidencing Common Stock subject hereto shall bear a legend as follows:

"The shares of stock represented by this certificate are, until sale, subject to a Shareholders' Agreement, dated as of August 27, 1999, a copy of which is on file in the office of the Company."

Any certificate evidencing Common Stock subject to this Agreement which is hereafter issued shall bear the same legend.

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8. Termination of Agreement. This Agreement shall continue until, and shall terminate immediately upon (a) execution of a written agreement of termination by the Shareholders and the Company, (b) the adjudication of the Company as a bankrupt or insolvent by a court of competent jurisdiction, or (c) each of 3TEC and the Major Stockholders own less than five percent of the issued and outstanding shares of Common Stock.

9. Shareholders' Representation and Warranties. Each Shareholder, severally, as to itself only, represents and warrants to the Company that (a) the Shareholder has duly authorized, executed and delivered this Agreement and this Agreement constitutes a valid and binding agreement, enforceable in accordance with its terms and neither the execution and delivery of this Agreement nor the consummation by the Shareholder of the transactions contemplated hereby will constitute a violation of, a default under, or conflict with any contract, commitment, agreement, understanding, arrangement or restriction of any kind to which the Shareholder is a party or by which the Shareholder is a party or by which the Shareholder is bound; (b) consummation by the Shareholder of the transactions contemplated hereby will not violate, or require any consent, approval, or notice under, any provision of law other than filing on Form 13D that may be required under the Securities Exchange Act of 1934, as amended; (c) except to the extent contemplated herein each Shareholder's shares of Common Stock and the certificates representing same are now and at all times during the term of this Agreement will be held by the Shareholder, or by a nominee or custodian for the benefit of the Shareholder,

free and clear of all liens, claims, security interests, proxies, voting trusts or agreement or any other encumbrances whatsoever ("Encumbrances") with respect to the ownership or voting of such shares of Common Stock or otherwise, other than Encumbrances created by or arising pursuant to this Agreement; (d) there are no outstanding options, warrants or rights to purchase or acquire, or proxies, powers-of-attorney, voting agreements, trust agreements or other agreements relating to, such shares of Common Stock other than this Agreement and the Registration Rights Agreement of even date as defined in the Purchase Agreement; (e) the shares of Stock listed in the second recital paragraph hereof constitutes all of the Common Stock of each Shareholder owned beneficially or of record by such Shareholder on the date hereof; and (f) the Shareholder has the present power and right to vote all of the shares of Common Stock as contemplated herein.

10. Negative Covenants of Each Shareholder. Except to the extent contemplated herein or in the Purchase Agreements, each Shareholder hereby covenants and agrees that such Shareholder will not, and will not agree to, directly or indirectly, except pursuant to an effective registration statement or through "brokers" transactions as contemplated by subparagraphs (f) and (g) and subject to the limitations on amount provided by subparagraph (e) of Rule 144 under the Securities Act, (a) sell, transfer, assign, cause to be redeemed or otherwise dispose of any of its shares of Stock or enter into any contract, option or other agreement or understanding with respect to the sale, transfer, assignment, redemption or other disposition of its shares of Stock; (b) grant any proxy, power-of-attorney or other authorization or interest in or with respect to its shares of Stock pertaining or relating to the Purchase Agreements or any of the transactions contemplated thereby; or (c) deposit such Stock into a voting trust or enter into a voting agreement or arrangement with respect to such Stock, unless and until, in the case of (a), (b) or

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(c) above, the Shareholder shall have taken all actions (including, without limitation, the endorsement of a legend on the certificates evidencing such Stock) reasonably necessary to ensure that such Stock shall at all times be subject to all the rights, powers and privileges granted or conferred, and subject to all the restrictions, covenants and limitations imposed, by this Agreement and shall have caused, as a condition to any sale, transfer, pledge or other disposition of any shares of Stock, any transferee of any of the Stock, unless it is already a signatory to this Agreement, shall become a signatory to and be bound by the terms of this Agreement.

11. Certain Defined Terms. Unless otherwise expressly provided herein, all capitalized terms used herein without definition shall have the meanings assigned to them in the Purchase Agreement.

12. Successors. This Agreement shall be binding upon and shall operate

for the benefit of the Company, its shareholders, and their respective successors, assigns, executors, administrators and heirs, and it shall be binding upon any entity to whom any Stock is transferred in accord with or in violation of the provisions of this Agreement, and the executor or administrator of such entity.

13. Modification. Notwithstanding anything to the contrary in this Agreement or otherwise, no modification, amendment or waiver of any of the provisions of this Agreement shall be effective unless in writing and signed by all parties hereto. Each Shareholder covenants not to vote any shares of Stock in favor of any amendment of the articles of incorporation or bylaws of the Company, if such amendment would materially modify the terms or frustrate the purpose of this Agreement or the Purchase Agreements, unless the vote on such amendment is approved unanimously by the parties to this Agreement.

14. Non-Waiver. The failure to enforce at any time any of the provisions of this Agreement, or to require at any time performance by any other party of any of the provisions hereof, shall in no way be constructed to be a waiver of such provisions.

15. Invalid Provisions. If any provision of this Agreement is held to be illegal, invalid, or unenforceable under present or future laws effective during the term thereof, such provision shall be fully severable, this Agreement shall be construed and enforced as if such illegal, invalid, or unenforceable provision had never comprised a part thereof, and the remaining provisions thereof shall remain in full force and effect and shall not be affected by the illegal, invalid, or unenforceable provision or by its severance therefrom.

16. Entire Agreement. This Agreement contains the full understanding of the parties hereto with respect to the subject matter hereof, and there are no representations, warranties, agreements or understandings other than expressly contained herein.

17. Notices. Any notice to be given by any party hereunder to any other shall be in writing, mailed by certified or registered mail, return receipt requested, and shall be addressed to all other parties at the addresses listed on the signature page hereof. All such notices shall be

deemed to be given three (3) days after the date of mailing thereof.

18. Specific Performance. Each of the Shareholders acknowledges and agrees that the Company would be damaged irreparably in the event that any of the provisions of this Agreement are not performed in accordance with their specific terms or otherwise are breached. Accordingly, each of the Shareholders agrees that the Company shall be entitled to an injunction or injunctions to

prevent breaches of the provisions of this Agreement and to enforce specifically this Agreement and the terms and provisions hereof in any action instituted in any court having jurisdiction over the parties hereto and the subject matter hereof, in addition to any other remedy to which the Company may be entitled at law or in equity.

19. Governing Law. THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF ALABAMA.

20. Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

[Signature Page to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed on the day and year first above written.

COMPANY:

MIDDLE BAY OIL COMPANY, INC.

By: /s/ John J. Bassett

Name: John J. Bassett

Title: President

Address for Notice:

Middle Bay Oil Company, Inc.
1221 Lamar Street, Suite 1020
Houston, TX 77010
Fax: (713) 650-0352

3TEC ENERGY CORPORATION

By: /s/ Floyd C. Wilson

Name: Floyd C. Wilson
Title: President

Address for Notice:

3TEC Energy Corporation
5910 N. Central Expressway
Suite 1150
Dallas, TX 75206
Fax: (214) 373-9731

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KAISER-FRANCIS OIL COMPANY

By: /s/ Gary R. Christopher

Name: Gary R. Christopher
Title: Acquisitions Coordinator

Address for Notice:

Kaiser-Francis Oil Company
6733 South Yale
Tulsa, OK 74136
Fax: (918) 491-4694

/s/ C.J. Lett, III

C.J. LETT, III

Address for Notice:

C.J. Lett, III
9320 East Central
Wichita, Kansas 67206
Fax: (316) 636-1803

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WESKIDS, L.P.

By: Weskids, Inc.
Its General Partner

By: /s/ Christine W. Jenkins

Name: Christine W. Jenkins
Title: Vice President

Address for Notice:

Weskids, L.P.
310 South Street
Morristown, NJ 07960
Fax: (973) 682-2684

/s/ Alvin V. Shoemaker

ALVIN V. SHOEMAKER

Address for Notice:

Alvin V. Shoemaker
8800 First Avenue
Stone Harbor, NJ 08247
Fax: (609) 368-0147

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (the "Agreement") dated as of August 27, 1999, is entered into by and among MIDDLE BAY OIL COMPANY, INC., an Alabama corporation ("Corporation") and the parties listed on Schedule 1 attached hereto and incorporated herein by reference (each of such parties are referred to individually as "Shareholder" and collectively, as "Shareholders") and the parties listed on Schedule 2 attached hereto and incorporated herein by reference (each of such parties are referred to individually as "Piggy-Back Shareholder" and collectively, as "Piggy-Back Shareholders").

RECITALS

WHEREAS, pursuant to those Securities Purchase Agreements by and between the Corporation and each of the Shareholders as referenced on Schedule 1 (the "Purchase Agreements"), each Shareholder will receive the number of shares of Common Stock, Notes and Warrants as set forth on Schedule 1.

WHEREAS, each of the Piggy-Back Shareholders currently owns shares of Common Stock as set forth on Schedule 2.

WHEREAS, as a condition to the Purchase Agreements, Corporation has agreed to grant to Shareholders certain registration rights with respect to their Registrable Securities (defined hereafter) and has agreed to grant the Piggy-Back Shareholders certain registration rights with respect to their Piggy-Back Registrable Securities (defined hereafter).

WHEREAS, all the terms used but not defined in this Agreement shall have the meaning ascribed to them in the Purchase Agreements.

NOW, THEREFORE, in consideration of the mutual promises contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. Definitions.

For purposes of this Agreement, the following terms shall have the respective meanings assigned to them in this Section 1 or in the recitals above or the subsections referred to below.

"Piggy-Back Registrable Securities" shall mean (i) the shares of Common Stock owned by each Piggy-Back Shareholder as listed on Schedule 2 (ii) the shares of Common Stock owned by each Piggy-Back Shareholder during the term of this Agreement as a result of the conversion of the shares of the Company's Series B Convertible Preferred Shares as listed on Schedule 2, and (iii) any securities issued or issuable with respect to the shares described in clauses (i) and (ii)

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above by way of a stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization.

"Registrable Securities" shall mean (i) the shares of Common Stock issued to the Shareholders pursuant to the Purchase Agreements (which, for purposes hereof, shall mean the Common Stock Shares, the Warrant Shares and the

Conversion Shares as defined in the Purchase Agreements) and (ii) any securities issued or issuable with respect to the shares described in clause (i) above by way of a stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization.

Section 2. Independent Registration Rights.

2.1 The Corporation hereby grants to each Shareholder separate rights to require the Corporation to use its best efforts to cause registration and sale in a public offering of all or a portion of such Shareholder's Registrable Securities in accordance with this Section 2; provided, however, the Corporation shall not have any obligation to effect more than a total of three (3) effective registrations pursuant to this Section 2 at the Corporation's expense. If the Corporation shall have received a written request submitted by Shareholder(s) owning at least a majority of the Registrable Securities outstanding at the time of such request (the "Requisite Holders") that such Shareholder(s) desires/desire to sell Registrable Securities and specifying the number of Registrable Securities proposed to be sold (for the purposes of this Section 2, "Shares") and the proposed plan for distribution of the Shares, Corporation will thereafter:

2.1.1 Give prompt (but in any event within fifteen (15) days after the receipt of the Requisite Holder(s)' notice) notice to all other Shareholders of such notice and of such other Shareholders' rights to have their Registrable Securities included in such registration.

2.1.2 Upon the request of any such Shareholder made within fifteen (15) days after the receipt by such Shareholder of any such notice given pursuant to subsection 2.1.1 (which request shall specify the Registrable Securities intended to be disposed of by such Shareholder and the intended method or methods of disposition thereof), the Corporation will use its best efforts to effect the registration of all Shares which the Corporation has been so requested to register pursuant to this subsection 2.1.

2.1.3 Prepare and file as soon as practicable, but in no event later than thirty (30) days from Corporation's receipt of the last Shareholder's request to have such Shareholder's Registrable Securities included in such registration within the time period specified in Section 2.1.2, a registration statement under the Securities Act of 1933, as amended (the "Securities Act") ("Registration Statement") with the Securities Exchange Commission ("Commission") on Form S-1 (or Form S-2 or Form S-3, if Corporation is entitled to use such forms, or similar forms available for use by small business issuers) and use its best efforts to cause such Registration Statement to become effective in order that the Shareholders may sell the Shares in accordance with the proposed plan of distribution.

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2.1.4 Prepare and file with the Commission such amendment and supplements to such Registration Statement and prospectus used in connection therewith including any preliminary prospectus or supplemental or amended prospectus (the "Prospectus") as may be necessary to keep such Registration Statement continuously effective and to comply with the provisions of the Securities Act with respect to the offer of the Shares during the period required for distribution of the Shares, which period shall not be in excess of the earlier of (i) one year from the effective date of such Registration Statement, and (ii) the distribution of all Shares covered by such Registration Statement.

2.1.5 Furnish to each Shareholder such number of copies of the Prospectus (including any preliminary prospectus or supplemental or amended prospectus) as such Shareholder may reasonably request in order to facilitate the sale and distribution of the Shares.

2.2 The right of each Shareholder to register Shares pursuant to the provisions of this Section 2 shall be subject to the condition that if a request for registration is made within sixty (60) days prior to the conclusion of Corporation's then current fiscal year, Corporation shall have the right to

delay the filing of the Registration Statement for such period of time until Corporation receives its audited financial statements for such fiscal year.

2.3 If the Requisite Holder(s) intend/intends to distribute the Registrable Securities covered by the notice pursuant to subsection 2.1 by means of an underwriting, the Requisite Holder(s) shall so advise the Corporation as a part of the notice made pursuant to subsection 2.1 and provide the name of the managing underwriter or underwriters that the Requisite Holder(s) proposes/propose to employ in connection with the public offering proposed to be made pursuant to the registration requested. If the managing underwriter of such underwritten offering shall inform the Corporation and the Shareholders requesting that their Shares be registered pursuant to this Section 2 by letter of its belief that the amount of Shares requested to be included in such registration exceeds the amount which can be sold in (or during the time of) such offering within a price range acceptable to the Requisite Holders, then the Corporation will include in such registration such amount of Shares which the Corporation is so advised can be sold in (or during the time of) such offering pro rata on the basis of the amount of such Shares so proposed to be sold and so requested to be included by such parties.

2.4 A registration shall not be deemed to have been effected (i) unless it has become effective and remained effective for the period specified in subsection 2.1.4, (ii) if, after it has become effective, such registration is terminated by a stop order, injunction or other order of the Commission or other governmental agency or court, or (iii) if the conditions to closing specified in any purchase agreement or underwriting agreement entered into in connection with such registration are not satisfied for any reason, other than as a result of the voluntary termination of such offering by the Requisite Holders.

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Section 3. Piggy-Back Registration Rights.

3.1 If Corporation proposes to file, on its behalf, a Registration Statement under the Securities Act on Form S-1, S-2 or S-3 or similar forms available for use by small business issuers, other than pursuant to Section 2 of this Agreement or in connection with a dividend reinvestment, employee stock purchase, option or similar plan or in connection with a merger, consolidation or reorganization, Corporation shall give written notice to each Shareholder and Piggy-Back Shareholder at least thirty (30) days before the filing with the Commission of such Registration Statement. Such notice shall offer to include in such filing all or a portion of the Registrable Securities and Piggy-Back Registrable Securities owned by such Shareholder or Piggy-Back Shareholder. If a Shareholder or Piggy-Back Shareholder desires to include all or a portion of its Registrable Securities or Piggy-Back Registrable Securities in such Registration Statement, it shall give written notice to Corporation within fifteen (15) days after the date of mailing of such offer specifying the amount of Registrable Securities and/or Piggy-Back Registrable Securities to be registered (for the purpose of this Section 3, "Shares"). Corporation shall thereupon include in such filing the Shares, subject to priorities in registration set forth in this Agreement, and subject to its right to withdraw such filing, and shall use its best efforts to effect registration under the Securities Act of the Shares.

3.2 The right of the Shareholders and the Piggy-Back Shareholders to have the Shares included in any Registration Statement in accordance with the provisions of this Section 3 shall be subject to the following conditions:

3.2.1 Corporation shall have the right to require that each Shareholder or Piggy-Back Shareholder agree to refrain from offering or selling any shares of Common Stock that it owns which are not included in any such Registration Statement in accordance with this Section 3 for any reasonable time period specified, not to exceed ninety (90) days, by any managing underwriter of the offering to which such Registration Statement relates.

3.2.2 If (i) a registration pursuant to this Section 3 involves an underwritten offering of the securities being registered to be distributed (on a firm commitment basis) by or through one or more underwriters

of recognized standing under underwriting terms appropriate for such a transaction and (ii) the managing underwriter of such underwritten offering shall inform the Corporation and the Shareholders and Piggy-Back Shareholders who have requested that their Shares be registered pursuant to this Section 3 by letter of its belief that the amount of Shares requested to be included in such registration exceeds the amount which can be sold in (or during the time of) such offering within a price range acceptable to a majority of such requesting holders, then the Corporation will include in such registration such amount of securities which the Corporation is so advised can be sold in (or during the time of) such offering as follows: first, the securities being offered by the Corporation for its own account; second such Shares of the Shareholders which are requested to be included in such registration pro rata on the basis of the amount of such Shares so proposed to be sold and so requested to be included by such Shareholders; and third, such Shares of the Piggy-Back Shareholders and which are requested to be included in such registration pro rata on the basis of the amount of such Shares so proposed to be sold and so requested to be included by such Piggy-Back Shareholders.

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3.2.3 Corporation shall furnish each Shareholder and Piggy-Back Shareholder with such number of copies of the Prospectus as such Shareholder or Piggy-Back Shareholder may reasonably request in order to facilitate the sale and distribution of its shares.

3.3 Notwithstanding the foregoing, Corporation in its sole discretion may determine not to file the Registration Statement or proceed with the offering as to which the notice specified herein is given without liability to the Shareholders or the Piggy-Back Shareholders.

Section 4. Participation in Underwritten Registrations. No Shareholder or Piggy-Back Shareholder may participate in any registration hereunder which relates to an underwritten offering unless such Shareholder or Piggy-Back Shareholder (a) agrees to sell such holder's securities on the basis provided in any underwriting arrangements approved by the holders of at least a majority of the Registrable Securities and Piggy-Back Registrable Securities to be included in such registration, or by a Person appointed by such holders to act on their behalf to approve such arrangements, and (b) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements.

Section 5. Exclusive Registration Rights and Transfer.

The rights of each Shareholder under this Agreement may upon notice to the Corporation be transferred to its respective Affiliates in combination with a transfer of shares to such Affiliates. In addition, the rights of each Shareholder under this Agreement may upon notice to the Corporation be transferred to a non-Affiliate transferee in combination with a transfer of shares to such non-Affiliate transferee. However, such non-Affiliate transferee may not thereafter transfer its rights under this Agreement without the Corporation's written consent. Except as provided in this Section 5, the rights granted under this Agreement are granted specifically to and for the benefit of each Shareholder and Piggy Back Shareholder and shall not pass to any transferee of Registrable Securities. From and after the date of this Agreement, the Corporation will not, without the prior written consent of Shareholders holding at least a majority of the Registrable Securities then outstanding, enter into any agreement with respect to its securities which is inconsistent with or violates the rights granted to the Shareholders in this Agreement. Without limiting the foregoing, the Corporation also specifically agrees that during the period commencing on the date hereof and ending when the Shareholders have disposed of all of their Registrable Securities, the Corporation will not enter into an agreement with any party pertaining to the registration by the Corporation of such party's Common Stock. The Corporation represents and warrants to each of the Shareholders that, as of the date hereof, the

Corporation is not a party to any agreement, other than this Agreement, pertaining to the registration by the Corporation of Common Stock.

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Section 6. Expenses. Corporation will bear all the expenses in connection with any Registration Statement under this Agreement, other than transfer taxes payable on the sale of such shares, the fees and expenses of counsel to the Shareholders and Piggy-Back Shareholders and fees and commissions of brokers, dealers and underwriters.

Section 7. Recall of Prospectuses, etc. With respect to a Registration Statement or amendment thereto filed pursuant to this Agreement, if, at any time, Corporation notifies the Shareholders and Piggy-Back Shareholders that an amendment or supplement to such Registration Statement or amendment to the Prospectus included therein is necessary or appropriate, each Shareholder and Piggy-Back Shareholder will forthwith cease selling and distributing shares thereunder and will forthwith redeliver to Corporation all copies of such Registration Statement and Prospectuses then in its possession or under its control. Corporation will use its best efforts to cause any such amendment or supplement to become effective as soon as practicable and will furnish each Shareholder and Piggy-Back Shareholder with a reasonable number of copies of such amended or supplemented prospectus (and the period during which Corporation is required to use its best efforts to maintain such Registration Statement in effect pursuant to this Agreement will be increased by the period from the date on which such Shareholder or Piggy-Back Shareholder ceased selling and distributing shares thereunder to the date on which such amendment or supplement becomes effective).

Section 8. Cooperation with Existing Shareholders. Corporation shall be entitled to require the Shareholders and Piggy-Back Shareholders to cooperate with Corporation in connection with a registration of Registrable Securities pursuant to this Agreement and furnish (i) such information as may be required by Corporation or the Commission in connection therewith and (ii) such representations, undertakings and agreements as may be required by the Commission in connection therewith.

Section 9. Registration Procedures Upon the receipt of a request for registration of any Registrable Securities pursuant to Section 2 or Section 3 of this Agreement, Corporation will use its best efforts to effect the registration of the Registrable Securities in accordance with the intended method of disposition thereof, and pursuant thereto Corporation will as expeditiously as possible:

9.1.1 Prepare and file with the Commission a registration statement on an appropriate form under the Securities Act and use its best efforts to cause such registration statement to become effective; provided, that before filing a registration statement or prospectus or any amendments or supplements thereto, including documents incorporated by reference after the initial filing of any registration statement, Corporation will promptly furnish to the holders of Registrable Securities and Piggy-Back Registrable Securities to be registered and sold pursuant to this Agreement (the "Registered Holders") and the underwriters, if any, copies of all such

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documents proposed to be filed, which documents will be subject to the review of the Registered Holders and the underwriters, and Corporation will not file any registration statement or amendment thereto, or any prospectus or any supplement thereto (including such documents incorporated by reference) to which the Registered Holders or the underwriters, if any, shall reasonably object in the

light of the requirements of the Securities Act and any other applicable laws and regulations.

9.1.2 Prepare and file with the Commission such amendments and post-effective amendments to a registration statement as may be necessary to keep such registration statement effective for the applicable period; cause the related prospectus to be filed pursuant to Rule 424(b) (or any successor provision) under the Securities Act; cause such prospectus to be supplemented by any required prospectus supplement and, as so supplemented, to be filed pursuant to Rule 424(b) (or any successor provision) under the Securities Act; and comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement during the applicable period in accordance with the intended methods of disposition set forth in such registration statement or supplement to such prospectus.

9.1.3 Notify the Registered Holders and the managing underwriters, if any, promptly, and (if requested by any such person) confirm such advice in writing, (i) when a prospectus or any prospectus supplement or post-effective amendment has been filed, and, with respect to a registration statement or any post-effective amendment, when the same has become effective, (ii) of any request by the Commission for amendments or supplements to a registration statement or related prospectus or for additional information, (iii) of the issuance by the Commission of any stop order suspending the effectiveness of a registration statement or the initiation of any proceeding for that purpose, (iv) if at any time the representations and warranties of Corporation contemplated by subsection 9.1.10 cease to be true and correct, (v) of the receipt by Corporation of any notification with respect to the suspension or qualification of any of the Registrable Securities for sale in any jurisdiction or the initiation of any proceeding for such purpose, (vi) of the happening of any event which requires the making of any changes in a registration statement or related prospectus so that such documents will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading and (vii) of Corporation's reasonable determination that a post-effective amendment to a registration statement would be appropriate or that there exist circumstances not yet disclosed to the public which make further sales under such registration statement inadvisable pending such disclosures and post-effective amendment.

9.1.4 Make reasonable efforts to obtain the withdrawal of any order suspending the effectiveness of a registration statement, or the lifting of any suspension of the qualification of any of the Registrable Securities for sale in any jurisdiction, at the earliest possible moment.

9.1.5 If requested by the managing underwriters or the Registered Holders in connection with an underwritten offering, immediately incorporate in a prospectus supplement or post effective amendment such information as the managing underwriters and the Registered Holders agree should be included therein relating to such sale and distribution of Registrable Securities,

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including, without limitation, information with respect to the number of shares of Registrable Securities being sold to such underwriters and the purchase price being paid therefor by such underwriters and with respect to any other terms of the underwritten (or best efforts underwritten) offering of the Registrable Securities to be sold in such offering; make all required filings of such prospectus supplement or post-effective amendment as soon as notified of the matters to be incorporated in such prospectus supplement or post-effective amendment; and supplement or make amendments to any registration statement if requested by the Registered Holders or any underwriter of such Registrable Securities.

9.1.6 Furnish to the Registered Holders and each managing underwriter, if any, without charge, at least one signed copy of the registration statement, any post-effective amendment thereto, including

financial statements and schedules, all documents incorporated therein by reference and all exhibits (including those incorporated by reference).

9.1.7 Deliver without charge to the Registered Holders and the underwriters, if any, as many copies of the prospectus or prospectuses (including each preliminary prospectus) and any amendment or supplement thereto as such persons may reasonably request; and Corporation consents to the use of such prospectus or any amendment or supplement thereto by such Registered Holders and the underwriters, if any, in connection with the offer and sale of the Registrable Securities covered by such prospectus or any amendment or supplement thereto.

9.1.8 Prior to any public offering of Registrable Securities, register or qualify or cooperate with the Registered Holders, the underwriters, if any, and respective counsel in connection with the registration or qualification of such Registrable Securities for offer and sale under the securities or Blue Sky laws of such jurisdictions as the Registered Holders or an underwriter reasonably requests in writing; keep each such registration or qualification effective during the period such registration statement is required to be kept effective and do any and all other acts or things necessary or advisable to enable the disposition in such jurisdictions of the Registrable Securities covered by the applicable registration statement; provided, however, that Corporation will not be required in connection therewith or as a condition thereto to qualify generally to do business or subject itself to general service of process in any such jurisdiction where it is not then so subject.

9.1.9 Upon the occurrence of any event contemplated by subsection 9.1.3 (ii) - (vii) above, prepare, to the extent required, a supplement or post-effective amendment to the applicable registration statement or related prospectus or any document incorporated therein by reference or file any other required document so that, as thereafter delivered to the purchaser of the Registrable Securities being sold thereunder, such prospectus will not contain an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading.

9.1.10 Enter into such agreements (including an underwriting agreement) and take all such other actions in connection therewith in order to expedite or facilitate the disposition of such Registrable Securities and in such connection, whether or not an underwriting agreement is

entered into and whether or not the Registrable Securities to be covered by such registration are to be offered in an underwritten offering: (i) make such representations and warranties to the Registered Holders to the registration statement, prospectus and documents incorporated by reference, if any, in form, substance and scope as are customarily made by issuers to underwriters in underwritten offerings and confirm the same if and when requested; (ii) obtain opinions of counsel to Corporation and updates thereof with respect to the registration statement and the prospectus in the form, scope and substance which are customarily delivered in underwritten offerings; (iii) in the case of an underwritten offering, enter into an underwriting agreement in form, scope and substance as is customary in underwritten offerings and obtain opinions of counsel to Corporation and updates thereof (which counsel and opinions (in form, scope and substance) shall be reasonably satisfactory to the managing underwriters and the Registered Holders) addressed to the Registered Holders and the underwriters, if any, covering the matters customarily covered in opinions delivered in underwritten offerings and such other matters as may be reasonably requested by the Registered Holders and such underwriters; (iv) obtain "cold comfort" letters and updates thereof from Corporation's independent certified public accountants addressed to the Registered Holders and the underwriters, if any, such letters to be in customary form and covering matters of the type customarily covered in "cold comfort" letters by accountants in connection with underwritten offerings; (v) if any underwriting agreement is entered into, the same shall set forth in full the indemnification provisions and procedures customarily included in underwriting agreements in underwritten offerings; and (vi) Corporation shall deliver such documents and certificates as may be

requested by the Registered Holders and the managing underwriters, if any, to evidence compliance with clause (i) above and with any customary conditions contained in the underwriting agreement or other agreement entered into by Corporation. The above shall be done at each closing under such underwriting or similar agreement or as and to the extent required thereunder.

9.1.11 Make available for inspection by a representative of the Registered Holders, any underwriter participating in any disposition pursuant to such registration, and any attorney or accountant retained by the Registered Holders or such underwriter, all financial and other records, pertinent corporate documents and properties of Corporation, and cause Corporation's officers, directors and employees to supply all information reasonably requested by any such representative, underwriter, attorney or accountant in connection with such registration; provided that any records, information or documents that are designated by Corporation in writing as confidential shall be kept confidential by such Persons unless disclosures of such records, information or documents is required by court or administrative order.

9.1.12 Otherwise use its best efforts to comply with all applicable rules and regulations of the Commission and make generally available to its security holders earning statements satisfying the provisions of Section 11(a) of the Securities Act, no later than 90 days after the end of any 12-month period (i) commencing at the end of any fiscal quarter in which Registrable Securities are sold to underwriters in a firm or best efforts underwritten offering and (ii) beginning with the first day of Corporation's first fiscal quarter next succeeding each sale of Registrable Securities after the effective date of a registration statement, which statements shall cover said 12-month periods.

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9.1.13 If Corporation, in the exercise of its reasonable judgment, objects to any change reasonably requested by the Registered Holders or the underwriters, if any, to any registration statement or prospectus or any amendments or supplements thereto (including documents incorporated or to be incorporated therein by reference) as provided for in this Section 9, Corporation shall not be obligated to make any such change and such Registered Holders may withdraw their Registrable Securities from such registration, in which event (i) Corporation shall pay all registration expenses (including its counsel fees and expenses) incurred in connection with such registration statement or amendment thereto or prospectus or supplement thereto, and (ii) in the case of a registration being effected pursuant to Section 2, such registration shall not count as one of the registrations Corporation is obligated to effect pursuant to Section 2 hereof.

Section 10. Indemnification.

10.1 In the event of any registration of any securities under the Securities Act pursuant to this Agreement, Corporation will indemnify and hold harmless each Shareholder, each Piggy-Back Shareholder, any underwriter and each other Person, if any, who controls such Shareholder, Piggy-Back Shareholder or underwriter within the meaning of the Securities Act, against any losses, claims, damages or liabilities, joint or several, to which each such Shareholder, Piggy-Back Shareholder or any underwriter may become subject, under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or action in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in such Registration Statement or preliminary prospectus (if used prior to the effective date of such Registration Statement) or final or summary prospectus contained therein (if used during the period the Corporation is required to keep the Registration Statement effective), or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements made therein not misleading, and will reimburse each such Shareholder, Piggy-Back Shareholder or underwriter for any legal or any other expenses as reasonably incurred by such person in connection with investigating

or defending any such action or claim, excluding any amounts paid in settlement of any litigation, commenced or threatened, if such settlement is effected without prior written consent of Corporation; provided, however, that Corporation will not be liable to the Shareholders, Piggy-Back Shareholders or an underwriter in any such case to the extent that any such loss, claim, damage, liability or expense arises out of or is based upon an untrue statement or omission or alleged omission made in said Registration Statement, said preliminary prospectus or said final or summary prospectus or any amendment or supplement thereto, in reliance upon and in conformity with written information furnished to Corporation by that Shareholder, Piggy-Back Shareholder or their respective affiliates or representatives, or by that underwriter, as the case may be, specifically for use in the preparation thereof; and provided further that the indemnity agreement contained in this Section 10 with respect to any preliminary prospectus shall not inure to the benefit of the Shareholders, Piggy-Back Shareholders or any underwriter or to any Person selling the same in respect of any loss, claim, damage, liability or action asserted by someone who purchased shares from such person if a copy of the final

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prospectus (as the same may be amended or supplemented) in connection with such registration statement was not sent or given to such person with or prior to written confirmation of the sale and if the untrue statement or omission or alleged untrue statement or omission of a material fact contained in such preliminary prospectus was corrected in the final prospectus.

10.2 In the event of any registration of securities under the Securities Act pursuant to this Agreement, each Shareholder and Piggy-Back Shareholder will indemnify and hold harmless Corporation, each of its directors and officers, any underwriter and each other Person, if any, who controls Corporation or underwriter within the meaning of the Securities Acts, against any losses, claims, damages or liabilities, joint or several, to which Corporation or any such director, officer, underwriter may become subject, under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or action in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in such Registration Statement or preliminary prospectus or final or summary prospectus contained therein, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements made therein not misleading, and will reimburse Corporation, each such director, officer, underwriter for any legal or any other expenses as reasonably incurred by them in connection with investigating or defending any such action or claim, excluding any amounts paid in settlement of any litigation, commenced or threatened, if such settlement is effected without prior written consent of the indemnifying Shareholder, Piggy-Back Shareholder or their respective representative; but in all cases only if, and to the extent that any such loss, claim, damage, liability or expense arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission therein made in reliance upon and in conformity with written information furnished to Corporation by the indemnifying Shareholder, Piggy-Back Shareholder or their respective affiliates or representatives specifically for use in the preparation thereof. Notwithstanding the foregoing, the amount of the indemnity provided by each such Shareholder or Piggy-Back Shareholder pursuant to this Section 10 shall not exceed the net proceeds received by such Shareholder or Piggy-Back Shareholder in such related registration and sale.

10.3 Promptly after receipt by a party entitled to indemnification under subsection 10.1 or 10.2 hereof of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under either of such subsections, notify the indemnifying party in writing of the commencement thereof. In case any such action is brought against the indemnified party and it shall so notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate in, and, to the extent that it so chooses, to assume the defense thereof with counsel reasonably satisfactory to such indemnified party,

and, after notice from the indemnifying party that it so chooses, such indemnifying party shall not be liable for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof, provided, however, that if the indemnifying party fails to take reasonable steps necessary to diligently defend such claim within twenty (20) days after receiving notice from the indemnified party that the indemnified party believes the indemnifying party has failed to take such steps, the indemnified party may assume its own defense and the indemnifying party shall be liable for any expenses therefor. The indemnity

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agreements in this Section 10 shall be in addition to any liabilities which the indemnifying parties may have pursuant to law.

10.4 If the indemnification provided for in this Section 10 from the indemnifying party is unavailable to an indemnified party hereunder in respect of any losses, claims, damages, liabilities or expenses referred to herein, then the indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities or expenses in such proportion as is appropriate to reflect the relative fault of the indemnifying party and indemnified parties in connection with the actions which resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative fault of such indemnifying party and indemnified parties shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact, has been made by, or relates to information supplied by, such indemnifying party or indemnified parties, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action. The amount paid or payable by a party as a result of the losses, claims, damages, liabilities and expenses referred to above shall be deemed to include, subject to the limitations set forth in Section 10 hereof, any legal or other fees or expenses reasonably incurred by such party in connection with any investigation or proceeding.

The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 10 were determined by pro rata allocation or by any other method of allocation which does not take into account the equitable considerations referred to in the immediately preceding paragraph. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation.

Section 11. Sales under Rule 144. With a view to making available to each Shareholder and Piggy-Back Shareholder the benefits of Rule 144 promulgated under the Securities Act and any other similar rule or regulation of the Commission that may at any time permit such Shareholder or Piggy-Back Shareholder to sell the Registrable Securities without registration, Corporation agrees to:

(a) make and keep public information available, as those terms are understood and defined in Rule 144 (or any successor provision);

(b) file with the Commission in a timely manner all reports and other documents required of Corporation under the Securities Act and the Exchange Act;

(c) furnish to such Shareholder or Piggy-Back Shareholder forthwith upon request (i) a written statement by Corporation that it has complied with the reporting requirements of Rule 144 (or any successor provision), the Securities Act and the Exchange Act, (ii) a copy of the most recent annual or quarterly report of Corporation and such other reports and documents so filed by

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Corporation under the Securities Act and the Exchange Act and (iii) such other information as may be reasonably requested by such Shareholder or Piggy-Back Shareholder in availing itself of any rule or regulation of the Commission which permits the selling of any such securities without registration; and

(d) after any sale of Registrable Securities pursuant to Rule 144, to the extent allowed by law, to cause any restrictive legends to be removed and any transfer restrictions to be rescinded with respect to such Registration Securities.

Section 12. Removal of Legend. The Corporation agrees, to the extent allowed by law, to remove any legends on certificates representing Registrable Securities or Piggy-Back Registrable Securities describing transfer restrictions applicable to such securities upon the sale of such securities (i) pursuant to an effective Registration Statement under the Securities Act or (ii) in accordance with the provisions of Rule 144 under the Securities Act.

Section 13. Notices. Any notice to be given by any party hereunder to any other shall be in writing, mailed by certified or registered mail, return receipt requested, and shall be addressed to the other parties at the addresses listed on the signature pages hereof. All such notices shall be deemed to be given three (3) days after the date of mailing thereof.

Section 14. Modification. Notwithstanding anything to the contrary in this Agreement or otherwise, no modification, amendment or waiver of any of the provisions of this Agreement shall be effective unless in writing and signed by the Corporation and the Shareholders holding not less than 95% of the Registrable Securities then outstanding.

Section 15. Non-Waiver. The failure to enforce at any time any of the provisions of this Agreement, or to require at any time performance by any other party of any of the provisions hereof, shall in no way be construed to be a waiver of such provisions.

Section 16. Partial Invalidity. If any clause, sentence, paragraph, section or part of this Agreement shall be deemed invalid, unenforceable or against public policy, the part which is invalid, unenforceable or contrary to public policy shall not affect, impair, invalidate or nullify the remainder of this Agreement, but the invalidity, unenforceability or contrariness to public policy shall be confined only to the clause, sentence, paragraph, section or party of this Agreement so invalidated, unenforceable or against public policy.

Section 17. Construction. The language in all parts of this Agreement shall in all cases

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be construed simply, according to its fair meaning, and shall not be construed strictly for or against either of the parties hereto.

Section 18. Governing Law. This Agreement shall be governed and construed according to the laws of the State of Alabama, without regard to its conflicts of law principles.

Section 19. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall constitute an original and all of which together shall constitute but one and the same instrument.

Section 20. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and

their respective successors and permitted assigns.

Section 21. Specific Performance. The parties agree that, to the extent permitted by law, (i) the obligations imposed on them in this Agreement are special, unique and of an extraordinary character, and that in the event of a breach of any such party damages would not be an adequate remedy and (ii) the other party shall be entitled to specific performance and injunctive and equitable relief in addition to any other remedy to which it may be entitled at law or in equity.

(Remainder of page intentionally left blank)

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

"CORPORATION"

MIDDLE BAY OIL COMPANY, INC.

By: /s/ JOHN JAY BASSETT

Name: John J. Bassett
Title: President

Address for Notice:

Middle Bay Oil Company, Inc.
1221 Lamar Street, Suite 1020
Houston, TX 77010
Fax: (713) 650-0352

"SHAREHOLDERS"

3TEC ENERGY CORPORATION

By: /s/ FLOYD C. WILSON

Name: Floyd C. Wilson
Title: President

Address for Notice:

3TEC Energy Corporation
5910 N. Central Expressway
Suite 1150
Dallas, TX 75206
Fax: (214) 373-9731

SHOEMAKER FAMILY PARTNERS, LP

By: Alvin V. Shoemaker

Its General Partner

By: /s/ Peter Shoemaker

Name: Peter Shoemaker
Title: Attorney in Fact

Address for Notice:

Shoemaker Family Partners, LP
60 Brushhill Road
Kinnelon, NJ 07405
Fax: (310) 444-3833

SHOEINVEST II, LP

By: Alvin V. Shoemaker Investments, Inc.

Its General Partner

By: /s/ Peter Shoemaker

Name: Peter Shoemaker
Title: Executive Vice President

Address for Notice:

Shoeinvest II, LP
60 Brushhill Road
Kinnelon, NJ 07405
Fax: (310) 444-3833

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"PIGGY-BACK SHAREHOLDERS"

KAISER-FRANCIS OIL COMPANY

By: /s/ Gary R. Christopher

Name: Gary R. Christopher
Title: Acquisitions Coordinator

Address for Notice:

Kaiser-Francis Oil Company
6733 South Yale
Tulsa, OK 74136
Fax: (918) 491-4694

/s/ C.J. Lett, III

C.J. LETT, III

Address for Notice:

C.J. Lett, III
9320 East Central
Wichita, Kansas 67206
Fax: (316) 636-1803

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WESKIDS, L.P.

By: Weskids, Inc.
Its General Partner

By: /s/ Christine W. Jenkins

Name: Christine W. Jenkins
Title: Vice President

Address for Notice:

Weskids, L.P.
310 South Street
Morristown, NJ 07960
Fax: (973) 682-2684

/s/ Alvin V. Shoemaker

ALVIN V. SHOEMAKER

Address for Notice:

Alvin V. Shoemaker
8800 First Avenue
Stone Harbor, NJ 08247
Fax: (609) 368-0147

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SCHEDULE 1

3TEC Energy Corporation Securities Purchase Agreement by and between 3TEC Energy Corporation and Middle Bay Oil Company, Inc., dated July 1, 1999

4,775,556 shares of Common Stock
Warrants exercisable for 3,600,000
shares of Common Stock
\$10,700,000 Note (which is
convertible to Conversion Shares)

Shoemaker Family Partners,
LP

Securities Purchase Agreement by and
between Shoemaker Family Partners,
LP and Middle Bay Oil Company, Inc.,
dated August 27, 1999

22,222 shares of Common Stock

Warrants exercisable for 16,822
shares of Common Stock
\$50,000 Note (which is convertible
to Conversion Shares)

Shoeinvest II, LP

Securities Purchase Agreement by and
between Shoeinvest II, LP and Middle
Bay Oil Company, Inc., dated August
27, 1999

44,444 shares of Common Stock
Warrants exercisable for 33,644
shares of Common Stock
\$100,000 Note (which is convertible
to Conversion Shares)

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SCHEDULE 2

<TABLE>
<CAPTION>

| Piggy-Back Shareholder | Number of Shares of Common Stock Held Immediately Prior to Closing | Number of Shares of Series B Convertible Preferred Shares Held Immediately Prior to Closing |
|----------------------------|--|---|
| <S> | <C> | <C> |
| Kaiser-Francis Oil Company | 3,333,334 | 0 |
| C.J. Lett, III | 1,187,556 | 0 |
| Weskids, L.P. | 843,687 | 117,467 |
| Alvin V. Shoemaker | 684,222 | 117,466 |

</TABLE>

AGREEMENT

The undersigned reporting persons hereby agree that the statements filed pursuant to this Schedule 13D, to which this Agreement is filed as an exhibit, are filed on behalf of each of them.

Date: September 7, 1999

3TEC ENERGY CORPORATION

By: /s/ Floyd Wilson

Floyd Wilson
Managing Director

Date: September 7, 1999

ENCAP INVESTMENTS L.L.C.

By: /s/ D. Martin Phillips

D. Martin Phillips
Managing Director